

STATE OF CALIFORNIA  
Budget Change Proposal - Cover Sheet  
DF-46 (REV 02/15)

Fiscal Year 2016-17	Business Unit Audit	Department California High-Speed Rail Authority	Priority No. 1
Budget Request Name 2665-101-BCP-DP-2016-GB		Program <b>1970-ADMINISTRATION</b>	Subprogram

Budget Request Description

Enhanced Auditing of Contracted Services

Budget Request Summary

The CA High-Speed Rail Authority (Authority) requests \$826,000 in High-Speed Passenger Train Bond (6043) funding to establish six (6) permanent positions for the 2016-17 fiscal year. Four of the auditor positions are needed to perform audits of contract costs that have been billed and reimbursed. Two of the auditor positions are needed to address the increased workload due to Board of Directors' audit requests. These audits assist the Authority in complying with the general requirements of the federal grant to carry out the project in a sound, economical, and efficient manner, in accordance with the provisions of the grant agreement.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date
For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance. <input type="checkbox"/> FSR <input type="checkbox"/> SPR Project No. Date:		

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No  
*Attach comments of affected department, signed and dated by the department director or designee.*

Prepared By <i>Brandon Roberts</i>	Date 12/30/15	Reviewed By <i>Elisabeth</i>	Date 12/30/15
Department Director <i>H. Morales</i>	Date 12/30/15	Agency Secretary <i>Dr. F. Kelly</i>	Date 12/31/15

Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☐ ITCU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐ Dept. of Technology

BCP Type: ☐ Policy ☐ Workload Budget per Government Code 13308.05

PPBA <i>[Signature]</i>	Date submitted to the Legislature 1/7/2016
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## Analysis of Problem

### A. Budget Request Summary

The Audit Division requests six auditor positions (one Staff Management Auditor (Specialist), four Associate Management Auditors, and one Staff Services Management Auditor) to perform contract and performance audits as well as to address the increased workload due to Board of Directors' (Board) audit requests. The Board has directed the Audit Division to perform additional audits, which cannot be completed with existing staff. Staff time is fully allocated in the annual audit plan, and special requests replace planned audits. Additional staff are also needed to perform audits of contract costs that have been billed and reimbursed. These audits allow the Authority to confirm compliance with general requirements and provisions of the grant agreement. In addition, the Rail Delivery Partner contract streamlines administrative processes with contractor certifications, and relies on audits to verify compliance with contract terms.

### B. Background/History

The Authority's Audit Division reports directly to the Board. The Audit Division is responsible for auditing the Authority's systems of internal control, as well as the process for monitoring compliance with laws and regulations governing the Authority's operations. In the last 15 months since audit staff were hired, the Audit Division's focus has been on internal performance audits and contract pre-award audits. In prior years, the primary focus of the Audit Division's two staff was to act as audit liaison to external auditors. Internal audits have focused on policies and procedures to address risks inherent in a rapidly expanding entity. Contract pre-award audits are conducted to determine whether proposed costs are reasonable for progress billings, when a contractor is selected based on qualifications. The Authority has a goal of 30 percent Small Business utilization, which results in contracts with a significant number of subcontractors. Additional staff are necessary to perform audits of progress billings, to confirm costs reimbursements are in accordance with contract terms and conditions, as well as to perform audits as requested by the Board of Directors.

### C. State Level Considerations

This proposal is consistent with and necessary to accomplish the Authority's legislative mandate to design, build, operate and maintain a statewide high-speed train system.

### D. Justification

State law (GC §8546.7) provides for a three-year record retention period, effective from the date of final payment on a contract for records to be available for audit. The Authority has a wide range of incurred cost contract audits nearing the end of the records retention period. As of May 2015, the Authority has \$2,124,419,984 in contracts nearing the end of the record retention period. This new workload has not been completed by previous Audit staff as part of regular auditing responsibilities. The two tables below detail expected incurred cost audit workload for future fiscal years.

The following table details the number of contracts and the total contract awards nearing the end of the records retention period, based on a range of contract award amounts. The sum of the contract award values for each fiscal year is directly correlated to the contract award amounts for each of the contracts entering into the records retention period. (Please note that both tables below display only the newly proposed incurred cost audits record retention workload (39,417 hours for 163 audits totaling \$2.124B in contract awards) for FY 2016/17 and beyond. These tables do not include the current/on-going audit workload for Process Audits (8,550 hours), or the Finance and Audit Committee and Board of Directors (3,430 hours) through FY2015/16 and beyond.)



## Analysis of Problem

	FY 2016/17		FY 2017/18		FY 2018/19		FY 2019/20		Totals	
Contract Award Range	#	\$	#	\$	#	\$	#	\$	#	\$
\$50,000+	2	\$149.8	4	\$610.9	1	\$73.2	7	\$870.3	15	\$1,704.2
\$5,000 - \$49,999	1	\$18.0	4	\$70.3	4	\$42.5	8	\$171.2	17	\$302.0
\$1,000 - \$4,999	5	\$11.1	2	\$6.5	7	\$21.7	22	\$59.5	36	\$98.8
\$0.5 - \$0.999	3	\$2.1	2	\$1.8	5	\$2.4	7	\$4.9	17	\$11.2
\$0 - \$0.499	10	\$1.7	18	\$1.6	40	\$3.7	10	\$1.2	78	\$8.2
Totals	21	\$182.7	30	\$691.1	57	\$143.5	54	\$1,107.1	163	\$2,124.4

Note: All dollar amounts are in millions.

The follow table displays the number of audits and the required amount of audit hours, by type of incurred cost contract audit, through FY 2019/20. The sum of the audit hours is directly correlated to the number of audits reaching the records retention period each fiscal year.

	FY 2016/17		FY 2017/18		FY 2018/19		FY 2019/20		Totals	
Type of Audit	#	Hours	#	Hours	#	Hours	#	Hours	#	Hours
Design-Build	-	-	-	-	-	-	1	370	1	370
Environmental	-	-	1	55	1	78	2	2,079	4	2,212
Inter-agency	14	3,221	11	2,056	8	1,555	18	4,604	51	11,436
Legal	1	160	1	30	3	598	6	1,114	11	1,902
Project & Construction Mgmt	-	-	-	-	1	325	2	809	3	1,134
Railroad	-	-	-	-	1	336	2	467	3	803
Regional Consultant	2	988	7	4,011	3	942	1	396	13	6,337
ROW	-	-	-	-	4	887	15	4,080	19	4,967
Services	4	868	7	1,070	3	577	5	787	19	3,302
Station Area Planning	-	-	-	-	-	-	1	227	1	227
Utilities	-	-	3	500	33	5,907	2	320	38	6,727
Totals	21	5,237	30	7,722	57	11,205	55	15,253	163	39,417

The Audits staff must take a wide array of complexities into account when auditing these contracts. The average audit requires approximately 60-80 hours per contractor on an invoice, per fiscal year audited. The number of subcontractors on a prime contractor's invoice can significantly increase the workload. The amount of time expended on each contract has a wide variance, due to the contract amount, dollar amount of sampled invoices, number of fiscal years, number of subcontractors employed by the prime contractor, and the contracts' scope of work. One of the Authority's largest contract awards scheduled for review requires sampling 11 of the 51 subcontractors under the prime, spanning the course of almost a decade. Another added layer of complexity revolves around the large number of smaller contract awards. These smaller contracts may require a more in-depth review to check for accuracy and allowable expenditures than would traditionally be required, given that a considerable number have not previously done business with the state.

Without additional audit resources to perform contract audits, the likelihood increases that the Authority would pass unsupported or unallowable costs on to the Federal Railroad Administration for reimbursement without detection. Incurred cost contract audits provide good stewardship of public funds, in addition to allowing mission critical work to be performed with existing resources.

In addition, the Rail Delivery Partner contract provides for the contractor to certify that source documentation exists to support amounts invoiced without providing the documentation with each invoice, and provides for source documentation to be audited to determine compliance with the certification, as well as contract terms. There are no existing resources to perform these audits.



## Analysis of Problem

In FY 2014/15 audit requests made by the Board of Directors included additional scope of the contract management audit, Right-of-Way parcel acquisition process audit, continuous auditing of the Right-of Way reporting process, stipend payment process, advanced technical concepts evaluation and integration process for design build contracts, and an expanded review of policies and procedures under Statewide Leadership Accountability Act (SLAA). Additional staff is required to address these requests.

Based on the Board approved FY 2015/16 Audit Plan, the Authority has 11,980 hours of audit workload, which requires 7.0 positions to complete. Currently, the Authority has six permanent filled positions, which consists of four staff capable of 7,100 auditing hours, and two managers that can devote half of their time (890 hours each, 1,780 hours total) to audits. The Audit Division's six positions and one retired annuitant can perform 9,840 hours of audit work in FY 2015/16. Please note that the Authority has one vacancy and the retired annuitant (scheduled for a maximum of 960 hours) is a temporary position. In order to complete the remaining 2,140 hours of workload in the FY 2015/16 Audit Plan, the Authority will utilize two part-time temporary loan staff from Caltrans and one additional retired annuitant while recruiting for the vacancy.

Permanent staff is needed, as the workload is growing with each consecutive year. The Audit Division has historically only engaged in process audits; however, the Board of Directors and the Finance and Audit Committee have been placing additional audit demands upon the Authority for specified audits of contracts and processes. These demands have required the Audit Division to address the new workload of incurred cost contract audits. Based on current information, the Authority expects the FY 2016/17 Audit and future audit plans to have the following components and workload:

Process Audits consist of 8,550 hours of the following existing and estimated on-going workload:

- Design Refinement Process: 1,500 hours
- Design Build Oversight: 1,000 hours
- Pre-award Reviews: 3,000 hours
- Draft Agreement Review: 200 hours
- Year-End Close: 300 hours
- Audit Liaison: 300 hours
- Contract Development: 1,000 hours
- Management Requests: 850 hours
- Project Construction Management Follow-Up: 400 hours
- Total Audit Workload: 8,550 hours

Below are FY 2015/16 audit requests by the Finance and Audit Committee and the Board of Directors. These requests are to address an immediate concern of the Board of Directors or the Finance & Audit Committee. The Authority believes that these same (or similar) activities will continue beyond FY 2016/17, and has an existing workload of:

- Contract Management additional scope and follow up: 500 hours
- Right of Way Parcel Acquisition process: 1,000 hours
- Right of Way Reporting continuous auditing: 480 hours
- Design-Build stipend and advanced technical concept process: 350 hours
- Policies and Procedures: 100 hours
- Grant Compliance: 1,000 hours (requested Summer 2015)
- Total Audit Workload: 3,430 hours

Beginning FY 2016/17, the incurred cost audits records retention workload consists of 39,417 hours of new workload, as detailed below:

### Fiscal Year 2016/17

- Inter-Agency: 3,221 hours
- Legal: 160 hours
- Regional Consultants: 988 hours
- Services: 868 hours
- Audit Workload: 5,237 hours

### Analysis of Problem

## Fiscal Year 2017/18

Environmental: 55 hours  
Inter-Agency: 2,056 hours  
Legal: 30 hours  
Regional Consultants: 4,011 hours  
Services: 1,070 hours  
Utilities: 500 hours  
Audit Workload: 7,722 hours

## Fiscal Year 2018/19

Environmental: 78 hours  
Inter-Agency: 1,555 hours  
Legal: 598 hours  
Project & Construction Management: 325 hours  
Railroads: 336 hours  
Regional Consultants: 942 hours  
Right of Way: 887 hours  
Services: 577 hours  
Utilities: 5,907 hours  
Audit Workload: 11,205 hours

Fiscal Year 2019/20

Design-Build: 370 hours  
Environmental: 2,079 hours  
Inter-Agency: 4,604 hours  
Legal: 1,114 hours  
Project & Construction Management: 809 hours  
Railroads: 467 hours  
Regional Consultants: 396 hours  
Right of Way: 4,080 hours  
Services: 787 hours  
Station Area Planning: 227 hours  
Utilities: 320 hours  
Audit Workload: 15,253 hours

Total Audit Workload: 39,417 hours  
Averaged Annual Audit Hours: 9,854 hours

Beginning FY 2016/17, the Audit Division would have an ongoing workload need of 21,834 hours annually. This workload comprises 11,980 hours of existing workload (8,550 hour of process audits and 3,430 hours of Board of Directors requests) and 9,854 averaged hours of new workload annually. With the additional 6.0 requested positions, the Audit Division would have 13.0 total positions to address the new total audits workload.

### E. Outcomes and Accountability

The Authority will perform incurred cost audits, in compliance with Generally Accepted Government Auditing Standards, on contracts that are approaching the end of the record retention period, or are considered to be a “high risk” and/or “high cost” to the Authority. Contracts selected for audit will be determined based on an internal risk assessment taking into account the contract amount, number of sub consultants, and management input. We estimate that each year of a contract will take an average of 200 audit hours (or an average of 600 hours for a three-year contract). Authority contracts vary in amount from \$11,190 to \$295,000,000 and audit hours will vary based on contract amount, number of sub consultants, and contract complexity.

Additional staff will perform performance audits, in compliance with the International Standards for the Professional Practice of Internal Auditing. Audit requests by the Board of Directors are to address an immediate concern.



## Analysis of Problem

### Projected Outcomes

Workload Measure	CY	BY	BY+1	BY+2	BY+3	BY+4
Incurred Cost Contract Audit	0.0 PY	4.0 PY	4.0 PY	4.0 PY	4.0 PY	4.0 PY
Performance (Internal) Audits/ Reviews	4.0 PY	5.5 PY	5.5 PY	5.5 PY	5.5 PY	5.5 PY
Board of Directors' Audit Requests	1.0 PY	2.0 PY	2.0 PY	2.0 PY	2.0 PY	2.0 PY
Supervisory / Administrative Workload	1.0 PY	1.5 PY	1.5 PY	1.5 PY	1.5 PY	1.5 PY

Note: Supervisory classifications spend approximately 50 percent of annual hours engaging in audit workload, while the remaining hours are used to oversee staff workload, deliverables, and other administrative tasks.

## F. Analysis of All Feasible Alternatives

### Alternative 1: Approve the Budget Change Proposal

Pros: Additional audit staff allows the Authority to confirm compliance with the general requirements of the federal grant, perform its fiduciary responsibility when spending public funds, and perform additional performance audits as requested. Unallowable costs recovered from previously reimbursed amounts will allow the Authority to perform additional mission critical contracted work with existing resources. Improved processes will strengthen internal control compliance, and alert management to risks and internal control weaknesses.

Cons: None.

### Alternative 2: Utilize retired annuitants and Department of Transportation loaned staff to perform incurred cost contract audits.

Pros: Loaned auditors are familiar with performing incurred cost contract audits and many of the engineering consultant and utility companies perform work for both entities.

Cons: Loaned staff are limited to Department of Transportation staff that is interested in temporary assignment with the Authority. The Authority would have a lack of staff continuity and would need to rely on retired annuitants and loaned employees. Hiring staff allows the Authority to solicit interest from a wider range of interested auditors.

### Alternative 3: Deny the Budget Change Proposal.

Pros: None

Cons: No incurred cost contract audits will be performed. Unallowable costs will have been reimbursed by the Authority, and passed on to the Federal Railroad Administration for reimbursement without detection. The Authority risks loss of federal funding due to non-compliance with the grant agreement. Audits identified through a risk-based audit planning process will be postponed due to audit requests made by the Board of Directors.

## G. Implementation Plan

Plan to recruit staff, effective with approval of the positions requested.

## H. Supplemental Information

None

## Analysis of Problem

### I. Recommendation

Approve Alternative 1 – six audit staff (one Staff Management Auditor (Specialist), four Associate Management Auditors, and one Staff Services Management Auditor) and increase High-Speed Passenger Train Bond appropriation \$826,000.

# BCP Fiscal Detail Sheet

BCP Title: Enhanced Auditing of Contracted Services

DP Name: 2665-101-BCP-DP-2016-GB

## Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Positions - Permanent	0.0	6.0	6.0	6.0	6.0	6.0
<b>Total Positions</b>	<b>0.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>
Salaries and Wages						
Earnings - Permanent	0	448	448	448	448	448
<b>Total Salaries and Wages</b>	<b>\$0</b>	<b>\$448</b>	<b>\$448</b>	<b>\$448</b>	<b>\$448</b>	<b>\$448</b>
Total Staff Benefits	0	219	219	219	219	219
<b>Total Personal Services</b>	<b>\$0</b>	<b>\$667</b>	<b>\$667</b>	<b>\$667</b>	<b>\$667</b>	<b>\$667</b>
Operating Expenses and Equipment						
5301 - General Expense	0	24	24	24	24	24
5302 - Printing	0	6	6	6	6	6
5304 - Communications	0	18	18	18	18	18
5320 - Travel: In-State	0	18	18	18	18	18
5322 - Training	0	9	9	9	9	9
5324 - Facilities Operation	0	48	48	48	48	48
5344 - Consolidated Data Centers	0	30	30	30	30	30
5346 - Information Technology	0	6	6	6	6	6
<b>Total Operating Expenses and Equipment</b>	<b>\$0</b>	<b>\$159</b>	<b>\$159</b>	<b>\$159</b>	<b>\$159</b>	<b>\$159</b>
<b>Total Budget Request</b>	<b>\$0</b>	<b>\$826</b>	<b>\$826</b>	<b>\$826</b>	<b>\$826</b>	<b>\$826</b>

## Fund Summary

Fund Source - State Operations						
6043 - High - Speed Passenger Train Bond Fund	0	826	826	826	826	826
<b>Total State Operations Expenditures</b>	<b>\$0</b>	<b>\$826</b>	<b>\$826</b>	<b>\$826</b>	<b>\$826</b>	<b>\$826</b>
<b>Total All Funds</b>	<b>\$0</b>	<b>\$826</b>	<b>\$826</b>	<b>\$826</b>	<b>\$826</b>	<b>\$826</b>

## Program Summary

Program Funding						
1970 - High-Speed Rail Authority Administration	0	826	826	826	826	826
<b>Total All Programs</b>	<b>\$0</b>	<b>\$826</b>	<b>\$826</b>	<b>\$826</b>	<b>\$826</b>	<b>\$826</b>



## Personal Services Details

Positions	Salary Information			CY	BY	BY+1	BY+2	BY+3	BY+4
	Min	Mid	Max						
4155 - Staff Mgmt Auditor (Spec)				0.0	1.0	1.0	1.0	1.0	1.0
4159 - Assoc Mgmt Auditor				0.0	4.0	4.0	4.0	4.0	4.0
5841 - Staff Svcs Mgmt Auditor				0.0	1.0	1.0	1.0	1.0	1.0
<b>Total Positions</b>				<b>0.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>
Salaries and Wages	CY	BY	BY+1	BY+2	BY+3	BY+4			
4155 - Staff Mgmt Auditor (Spec)	0	80	80	80	80	80			
4159 - Assoc Mgmt Auditor	0	305	305	305	305	305			
5841 - Staff Svcs Mgmt Auditor	0	63	63	63	63	63			
<b>Total Salaries and Wages</b>	<b>\$0</b>	<b>\$448</b>	<b>\$448</b>	<b>\$448</b>	<b>\$448</b>	<b>\$448</b>			
Staff Benefits									
5150150 - Dental Insurance	0	13	13	13	13	13			
5150350 - Health Insurance	0	72	72	72	72	72			
5150500 - OASDI	0	34	34	34	34	34			
5150600 - Retirement - General	0	95	95	95	95	95			
5150750 - Vision Care	0	5	5	5	5	5			
<b>Total Staff Benefits</b>	<b>\$0</b>	<b>\$219</b>	<b>\$219</b>	<b>\$219</b>	<b>\$219</b>	<b>\$219</b>			
<b>Total Personal Services</b>	<b>\$0</b>	<b>\$667</b>	<b>\$667</b>	<b>\$667</b>	<b>\$667</b>	<b>\$667</b>			